

Annex – VIIIc

Role of the post offices in rural finance

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INTRODUCTION: THE RURAL FINANCE MARKET

According to estimates, the projected rural population based on declining household size because of lower population growth rates would be 96,429,000 in year 2002-2003. This in terms of households is 13,975,000. In case, Pakistan is serious to improve its economic indicators, a majority of these households would require some kind of financial marketplace. However, past experience shows that the outreach of financial institutions, especially in the rural market, has been dismally poor. For example, according to one estimate, the current clients of all financial as well as NGOs/RSPs working in rural areas is not more than 350,000.

The CRF has been assigned the task to have a holistic look at the entire rural finance market and come up with viable options which can help improve the out reach of and provide access to financial institutions. The CRF has been working on a multi pronged strategy to look at various options including extensive participatory review of existing institutions, both in the public as well as private sector. This was done with a sole purpose to address the challenge as to how and by which means can these institutions be reengineered and their capacity enhanced so that they are able to play a more effective role in improving access and delivery of services to the rural areas. Pakistan Post is one such institution which has the potential of playing an increased role in the rural financial market.

There are 10,650 post offices in the rural areas working all over Pakistan. Out of these 1,200 has been upgraded and have been equipped to provide all modern facilities. The post office has started a process of reforms and through restructuring they have earned a profit of 400 million in year 2000-01. The main reason for their success is the decision to diversify and restructure their traditional organization and its role towards globalisation, liberalization, e-commerce, computerization, and using Internet for their operations. This "attitudinal change" has been brought about through a conscious decision by their management to improve the quality of their services as well as accept the challenges of the future. This attitudinal change is the key to look at the post office to be an important partner in developing the rural finance market.

The following are some of the ways in which the post offices can play a vital role in promoting rural finance in Pakistan:

POST OFFICES AS OUTLETS OF BANKS

The out reach of commercial banks in the rural areas is dismal and with privatisation and deregulation, more and more rural branches of these banks are going to be closed. This would obviously have an adverse impact on the rural financial markets. ADBP has yet not decided

whether it would start savings products or not. NGOs/RSPs by default cannot mobilize deposits and financial inter mediation except micro loans.

The Pakistan Post has successfully demonstrated that by encouraging commercial banks to open booths in the post offices, the transaction costs of these banks can be significantly reduces. The UBL experience of opening the booths in some of the post offices need to be studied in detail especially to find out whether the arrangement is commercially viable for UBL. In case it is, then other commercial banks should be encouraged to follow suit. One option is that the SBP could not allow the closure of commercial banks branches in Rural areas unless these banks open two booths in adjacent post offices of their choice. This concept can also be introduced for new commercial banks as well as MFIs who apply for new licenses with the SBP.

Similarly, the ADBP, like other institutions have a limited outreach in terms of clients in the rural areas. Their offices are, mostly situated at the Tehsil level. The committee should strongly recommend that for a start, ADBP must have their booths set up at all post offices. Since ADBP is currently not in the business of offering loan products, this could be achieved seamlessly. In such a case, since the major beneficiary would be the ADBP, it should be asked to provide resources for the upgrading of the post offices.

In addition, the concept of setting up dedicated rural banks at the district level with branches down below can also be dovetailed with the rural post offices and booths of such banks opened at designated post offices. The kind of services which such booths can offer would of course depend on the business volume, but for a start they can initiate entertaining loan applications etc.

In order to achieve this, a comprehensive survey of all post offices needs to be conducted preferably by some independent agency under the auspices of the SBP to find out how and to what extent this scheme is workable. The CRF can develop TORs for such a study and could be part of the monitoring team to ensure that the information being collected is reliable.

UPGRADING RURAL POST OFFICES TO ENABLE THEM TO PROVIDE POST SERVICES TO RURAL POST OFFICES

This has two aspects. One is the service products that are already available with the post Offices but are currently not being provided at all rural post offices. Such services include:

- Savings bank with collection and disbursement of money
- Foreign remittances through savings banks
- Collection of Tax on Arms and driving Licenses
- Providing pension funds to all retired Government officials and not just the Armed forces.
- Communication centers

All such services can be easily expanded to the rural areas provided investments are made to upgrade the post offices. This can be undertaken in a phased manner but in partnership with perhaps the proposed district rural banks. It cannot be left solely on the discretion of the post offices. For this, the CRF should propose setting up of a task force with representatives of the CRF, SBP, Ministry of Finance and Ministry of Communications to look into the matter.

The other aspect is provision of new service products. For this, according to the Pakistan Post, "re-engineering" so as to upgrade their capacity to offer rural financial services. Some of these services include:

RURAL POST OFFICES PERFORMING SAVINGS AND TREASURY FUNCTIONS

Post office in general and the ones in the rural areas in particular can become an effective vehicle in the collection of cash through its savings bank network and in the transmission of money in any part of the country. Post can potentially perform the treasury functions on behalf of the SBP and the NBP where ever their branches are not strategically located but where Post offices are ideally situated. In addition Post offices can become the nucleus for physical conveyance of cash like the "BRINKS".

Prompt remittance and receipt of money to various authorized banks through "remittance advice" prepared by Pakistan post is possible. This would reduce risk of loss especially in far-flung areas.

INSURANCE PRODUCTS TO RURAL POPULATION:

The PLI share the unique distinction with the State Life Insurance of Pakistan of having a monopoly control over life insurance products. Insurance products are an important and can play a critical role in the development of Rural Financial market. Currently, there are no statistics available that can assess the potential of insurance products in the rural areas, but can be safely assessed from the ability of people to save in the rural areas. A xx % of all deposits of commercial banks comes from rural areas. This is despite the fact that savings products are not readily available to rural people.

In addition, the poor have their own unique way of savings, which include investments in livestock as well as in cash through informal ROSCAs. It is therefore sufficient to say that there is a huge unmet and untapped potential of offering insurance products in the rural areas. These products range from relatively simpler products like Life insurance, accidental insurance to progressively more complicated products like health insurance, property insurance and last but not the least crop insurance. (For example, considering crop insurance to be a complex and difficult subject, we might initially focus on covering the risk of interest accumulated on crop loans in case of calamity).

However, there is now sufficient data available, which can help design insurance products that are targeted to the rural market. It is therefore proposed that a joint committee be formed that can work with the main service providers to design targeted insurance products and test them.

The next challenge in terms of provision of insurance products is availability of service providers. International best practices experience show that the marketing function is best performed by outsourcing. This therefore opens a vast area for RSPs/NGOs to act as "agents" for the loan products. This would also perhaps provide one option for these organizations to utilize the millions of rupees of compulsory savings which till now are laying unproductively in small accounts across the country. The organizations stand to benefit by earning their commissions; the

Insurance Company by selling its products; and the people who never had access to such services. Indeed a win-win situation.

By outsourcing, the Insurance Company would be utilizing existing but trained manpower and well set channels for service delivery. Other organizations working in the rural areas like the VHWs of the health department or the primary school teachers can also be inducted provided of course the products are designed in a manner that there is minimum discretion.

TELECOMM CENTERS IN THE RURAL AREAS BY PAKIS'T'AN POST

This initiative would provide access to rural areas with latest communications technology. It is planned to equip each centre with computer with printers and scanners; Telephone through a new "Wireless Loop Telephony (this is being provided to the Post by PTCL. This will also enable the system to have Internet facilities); Post digital Pay phone.

Whereas this initiative is still in its initial stage, it must be appreciated and given all support. The CRF feels that since the centre would have access to internet a service of offering "Agriculture Commodity Market information System" wherein the farmers can have the knowledge of Commodity and inputs prices at various places within the country. In order to set this up, there would be a need to link a centralized cell, which updates the information regularly. South Korea has a similar system. So does parts of India especially in Andhra Pradesh and there is a need to study these systems.

It is also proposed that such centres should also be open for private sector. Each revenue village would need this kind of a centre and can have a potential of providing employment opportunities at the local level. In India, such facilities are being run by unemployed educated youth in villages. NGOs/RSPs join hands with the Pakistan Post to set up and then franchise these centres to the rural people. However, one needs to carefully calculate the costs involved and who will pay for what. Based on the Indian experience, one may initially look at the possibility to set up such centres at places where RSPs have their field offices, try to learn lessons and then offer them to the 25,000 community organizations under the RSPs for adoption.

MISCELANEOUS: FOREIGN REMITANCES THROUGH PREPAID INTERNET CARDS

Transfer of money from abroad through Internet by using a pre paid card system is being designed for expatriate Pakistanis. In the new post September 11 scenario this option needs to be looked more seriously. Whereas, it has a potential of facilitating people whose families live in the rural areas, it would definitely involve host Governments. However, this is an innovative initiative and deserves thoughtful consideration.